FINANCIAL MAINSTREAMING FOR THE RURAL POOR: THE JEEVIKA EXPERIENCE

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In the state of Bihar, India, the mobilisation of rural women into community self-help groups has emerged as an effective means of linking the poorest members of society with the formal banking system. The results seen in a relatively short time have been impressive.

Cover A Bank Mitra assisting a SHG member

With 104 million people, the state of Bihar, in the east of India, accounts for 8.6% of the country's population. Access to financial services is essential to address the high rates of poverty in the state, and the country at large. However, only 4.8% of the nation's commercial bank branches are operating in the state. Estimates by the Institute for Financial Management and Research in Chennai, India, suggest that the branch population per bank in Bihar is approximately 23,000, in comparison to the national average of 15,000, and out of 534 blocks in the state, 37 have no branch at all.

A weak banking infrastructure means vast sections of the poor have to depend on high-cost credit from informal moneylenders, and poor households are unable to invest in self-employment opportunities due to limited access to credit, limited asset and capital ownership, and long-term indebtedness. In response to this issue, and with financial assistance from the World Bank, Bihar's government launched the Bihar Rural Livelihoods Project in 2006. The project aimed to provide rural households with innovative, scalable and sustainable models for improved livelihood opportunities, such as rice intensification and backyard poultry.

The project targeted women from poor rural households and selected the target areas for the project via a poverty and social assessment, which analysed poverty levels, social vulnerability, the potential for improvement in livelihoods and social capital. Six districts were initially selected – Gaya, Khagaria, Madhubani, Muzaffarpur, Nalanda and Purnia – but the programme has since been scaled out in all 38 districts of Bihar.

The Bihar Rural Livelihoods Promotion Society (BRLPS), also known as JEEViKA, was established to implement the Bihar Rural Livelihoods Project, which aimed to increase the socio-economic empowerment of poor rural households in the state. The project planned to do so by promoting the establishment of community groups with sufficient capacity to productively engage with formal financial institutions, existing market systems and public programmes to improve their livelihoods, health, education and asset creation.

JEEViKA has mobilised nearly 8.2 million rural women into more than 650,000 self-help groups (SHGs) – each consisting of 12 to 15 rural women – and their associated federations. Through the nurturing and strengthening of these community institutions to become credible and bankable clients, the SHGs have emerged as the most effective platforms for linking the poorest members of Bihar's society to the formal banking system.

The institutional architecture for financial inclusion

JEEViKA adopted the approach of SHG-based financial access to enable bank branches to reach a larger client base by servicing smaller sets of community groups/institutions. These groups were advised by the project to meet regularly, to save collectively and lend from the group's internal corpus. The programme provided catalytic funding in the form of a Community Investment Fund (CIF) to initially stimulate financial intermediation, instil the habit of on-time repayment among beneficiaries, and build credit histories for its members. Articulate SHG members with a proven track record of adhering to on-time loan repayments were identified as community mobilisers (CMs), and facilitated the SHG meetings and maintained books of their financial transactions. With a proven credit history and a small corpus generated by way of savings and interest, the SHGs have been able to leverage larger credit amounts from banks.

Through the project, groups of 10 to 15 SHGs were federated into village organisations (VOs), which act as an important interface between the local bank branch and member groups, facilitating ongoing credit linkages through a committee. The committee undertakes the monitoring of loans accessed by group members and follows up on repayments. The majority of the project funds – like CIF – were consolidated from the SHGs at the VO level, and then revolved and redistributed based on the needs of its members. This fuelled a virtuous cycle of ongoing reinvestment into income-generating activities, such as crop and livestock-based farming activities, thereby enhancing incomes at the household level.

Specialised financial products were also introduced at the VO level for members to access funds at differential interest rates for the purchase of food grains during the lean season, or for emergency health-related expenses. Groups of 25 to 40 VOs were further federated into Cluster Level Federations (CLFs), which acted as large-scale financial intermediation platforms, addressing a wide variety of the community's financial needs. CLFs monitor the overall financial health of member institutions and act as vital points of contact for banks.

Key interventions and innovations

Over a decade, JEEViKA has worked on addressing key constraints on both the supply and demand side of financial service delivery. Some of the key initiatives undertaken by the project towards its goals of financial inclusion are summarised below:

- **Building local capacities.** The programme focused on developing strong community-led facilitation with locally identified CMs and book keepers. To date, over 20,000 community CMs are providing accounting services to the community institutions.
- **Strong financial management systems.** To encourage financial management within community institutions, simplified and uniform books of records for financial transactions were introduced at all levels. This enabled the project to standardise performance measurement systems, whilst ensuring the desired rigour in financial management was achieved. The project also instituted large-scale annual audits of the federations to further strengthen and maintain financial management within the community institutions.
- **Bank *Mitra* – a familiar helping hand.** To facilitate transactions between SHGs and the banks, JEEViKA introduced the idea of bank *Mitras* – SHG members placed within bank branches to act as interfaces. This was a major milestone for the programme where informal, non-bank employees were allowed to support the community while being stationed within the branch offices. More than 2,000 bank *Mitras* are currently working with local bank branches in Bihar supporting thousands of groups to effectively engage with their lending partners, while ensuring a healthy loan portfolio for the banks.
- **Specialised financial products at VO level.** The programme proactively analysed credit consumption patterns of SHG members and responded by introducing specialised financial products at the VO level. A food security fund was introduced to finance collective procurement of food grains for rural households. Similarly, a health risk fund was introduced for members to borrow at lower interest rates for health-related emergencies. Both these funds enabled the project to reduce the vulnerability of the poorest, whilst ensuring the availability of funds for productive investments.
- **Partnerships with commercial and regional rural banks.** JEEViKA worked on the strategy of entering into a formal Memorandum of Understanding (MoU) with commercial and regional rural banks in order to leverage timely financial support for SHGs. Bihar was one of the first states in India to enter into this type of partnerships with financial institutions in the form of MoUs. The strategy was widely recognised and many more states implementing similar programmes have followed suit.

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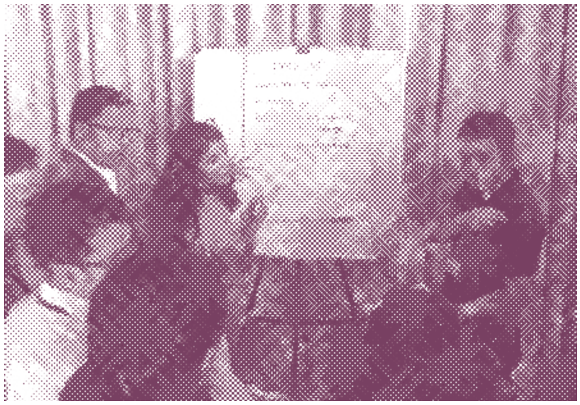


- **Policy advocacy with apex institutions.** Policy advocacy was done with apex institutions like the National Bank for Agriculture Development, the Reserve Bank of India and the State Level Banking Committee (SLBC) to facilitate timely support to SHGs from the banks. Continued advocacy helped to enhance the minimum amount for a first instalment for financing SHGs – from approximately 8,000 Indian rupees (INR) to INR 150,000. SLBC has also ratified that the second instalment of credit linkage will stand at INR 250,000.
- **Strong liaising with banks.** A culture of periodically following up with the banks to proactively address any pending issues was inbuilt into the process. Issues like the requirement of bank documents, potential applications, pending disbursements and repayments were taken up as a priority with all banks. The whole strategy helped in creating an ambience of acceptability for the SHG model as a means of financing.
- **Introduction of insurance services.** Expanding the range of financial products available to the community beyond savings and credit, JEEViKA facilitated the linkage of over 860,000 SHG members (mostly women) to low-cost insurance coverage. The project undertook concerted efforts in generating awareness regarding the merits of insurance and the major insurance products available. Support was also provided in regards to document preparation for insurance enrolment, death claim settlements and follow ups with the Life Insurance Corporation to ensure settlements were reached.

"My life has taken a complete U-turn since joining the Sagar SHG. With easy access to credit at an affordable rate of interest, I have paid back my debt to the Sahukar (money lender) and have also been able to get back my mortgaged land. My husband, who had migrated to Delhi to pay the high monthly instalment of the Sahukar, is back and working in agriculture and my son now owns a poultry shop. I feel secure," says Manti Devi, an SHG member from Gaya in Bihar.

Key result areas

The most significant result is the project's massive outreach. JEEViKA has mobilised over 7 million rural households into more than 650,000 SHGs, which have been further federated into nearly 36,623 VOs and 602 CLFs. These institutional platforms have enabled the poorest of rural Bihar to collectively access banking services. Presently, 3,672 rural bank branches are engaged actively in financing SHGs.

***Figure 1:** Pace of SHG formation*

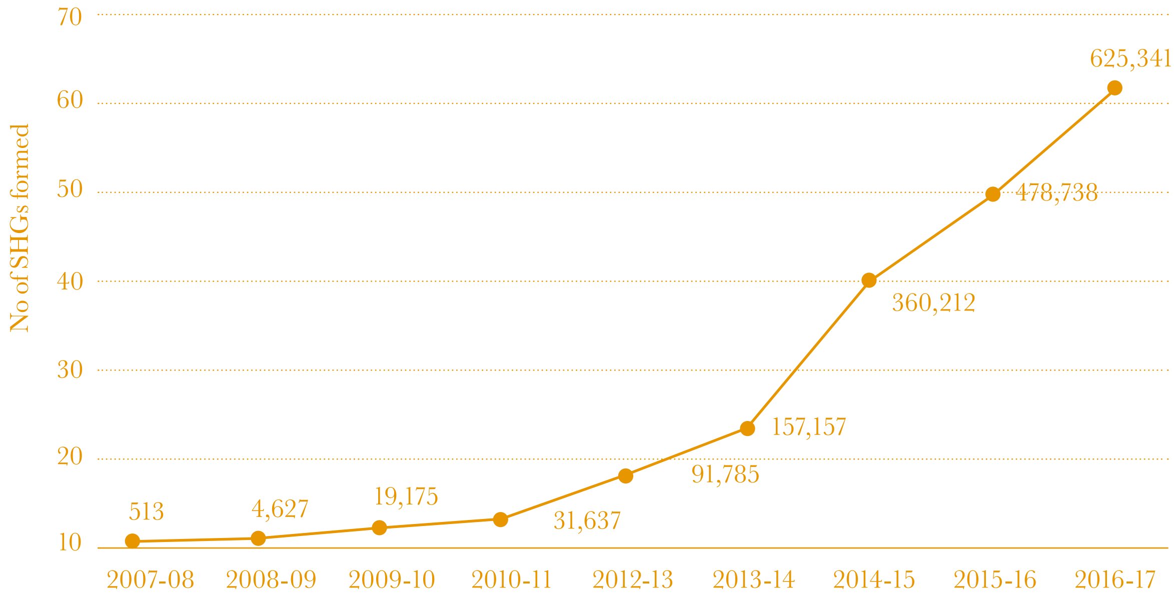
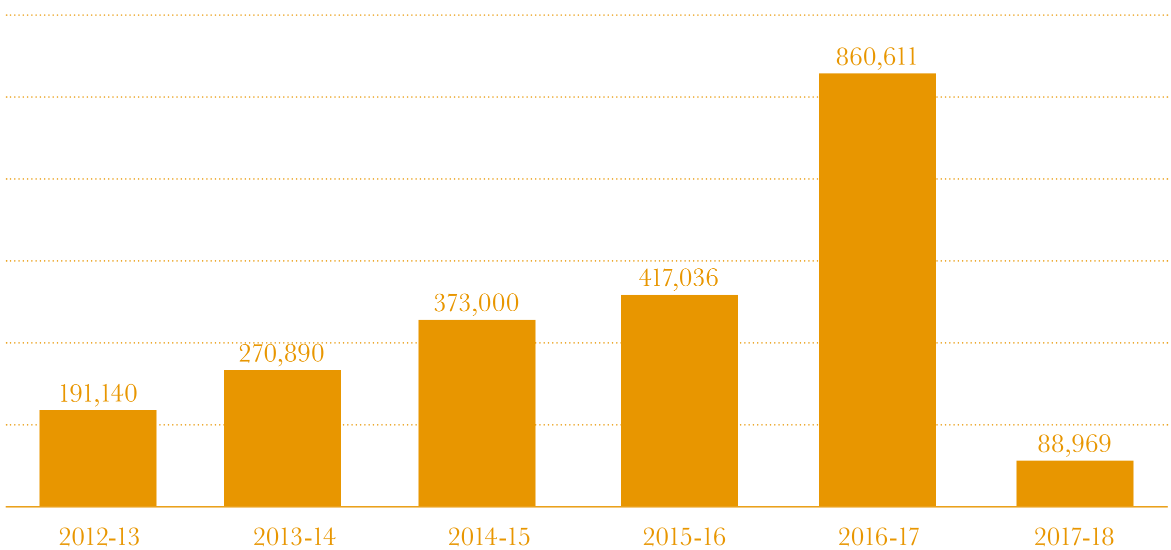


***Figure 2:** Enrolment of SHG members*



Taking into account the prevailing average of 16,100 people per bank branch, the banks have been able to reach 12% of their client base by servicing only 1.1% of corresponding bank accounts through SHGs.

SHG-bank linkages in Bihar have undergone an inspiring transformation over the last decade. Under the programme, the community institutions have leveraged credit to the tune of €427.5 million from banks, while generating a further €53.5 million in community savings. Starting from a base of less than €836,000 in 2009, the community institutions have emerged as vital stakeholders for banks, leveraging €220 million in 2016-17 alone. Significant investments made into processes of JEEViKA have enabled the programme to replicate the lessons on a larger scale. In the last 2 years, the programme has shown a 100% annual growth in credit linkage.

At the same time, JEEViKA has facilitated coverage of more than 860,000 SHG members under the government-sponsored *Aam Aadmi Bima Yojana*, an individual insurance scheme that insures women against death and disability. Participation in the government scheme has grown significantly, and members with children studying secondary and higher

Bank remittances no longer a boon

Saroj Devi, an SHG member from Nalanda in Bihar, happily shares her experience of opening her own bank account at the State Bank of India. She can now easily withdraw remittances sent by her husband who works in Jaipur. Prior to opening her own account, she says that she received the remittances through money orders, wherein she had to incur an extra expense of INR 200 per month. But now, her husband easily transfers the remittances, which are received into her bank immediately. "The long wait for money is gone. My bank account gets credited on time, and this has helped me to better plan my finances," says Devi. The receipt of remittances directly into Devi's account has encouraged her to save regularly, and she can now manage her finances better. Charges for receiving the remittances have also reduced to as low as INR 25.

classes are able to undertake a scholarship programme to complete the same school years. With JEEViKA-SHG members constituting 98% of all beneficiaries covered under the scheme, this demonstrates the effectiveness of institutional platforms in building convergence with government programmes.

And equally important is the leveraging effect of JEEViKA. JEEViKA institutions have been successful in leveraging high amounts of credit against low investments. Against a direct project investment of €257 million in the form of CIF, the community institutions have leveraged €480 million in bank credit and community savings. This puts the leveraging ratio of the project at 1:87, indicating that for every $1 (€0.84) invested in the project, the community institutions have been able to generate an additional investment of $1.87 (€1.56). This is a complete reversal from the state's overall credit-deposit ratio, where for every $1 invested by rural communities, only $0.32 (€0.27) is being leveraged as credit. Furthermore, project investment along with community savings form a significant corpus fund for community institutions that allows them to leverage more formal credit on an on-going basis.

Lessons learned

The continuous emphasis on standardised operations and uniform procedures to instil financial discipline in the community-based organisations helped in overcoming the challenges of weak banking infrastructure. JEEViKA adopted a standardised model of building member capacities on key principles of savings, thrift and responsible borrowing. With the community institutions taking charge of necessary due diligence and system strengthening, this facilitated the banks to provide credit without incurring high transaction costs.

Next to this is the importance of a community-led approach. To combat the challenge of weak banking infrastructure, JEEViKA has promoted a collective access to finance. The nurturing of a pool of community cadre in the form of book keepers and bank *Mitras* helped in extending the reach of financial services to the most vulnerable and needy. This also facilitated faster transactions in the understaffed bank branches.

Last, we have seen that to address the high rates of poverty in Bihar, and the country at large, it is critical to go beyond credit and facilitate the provision of an array of financial services. Under the JEEViKA programme, community members have been exposed not only to credit, but to an entire range of services including insurance, remittances and individual banking.

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